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Title:

Federal policies and South Australian manufacturing future

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FEDERAL POLICIES AND SOUTH AUSTRALIAN MANUFACTURING FUTURE

The South Australian Government has made submissions to the old Tariff Board in the last two years at its inquiries on protection levels for the motor vehicle and domestic appliance industries. These submissions (copies attached) stressed the crucial employment-providing role of these industries and the electrical goods industries in the Adelaide area.

The accompanying background paper both gives some detail of the areas of concern in each of the industries affected by lower protection and summates the degree to which Adelaide's manufacturing employment is based on these industries. Approximately 35% of manufacturing employment in Adelaide is in these industries or in their dependent components suppliers.

Although today the decentralisation and strategic arguments for the establishment of these industries in Adelaide may not be as readily accepted, these industries were actively fostered by successive Federal and State Governments.

Over the last 18 months the Australian Government, in an attempt to restrain Australian price levels and at the same time force rationalisation and greater efficiency in protected local industries, has:-

- (i) Revalued the Australian dollar against the U.S. dollar on 3 occasions, 23rd December, 1972, 12th February, 1973, and 9th September, 1973, and against other currencies on the earlier and latter dates.
- (ii) Reduced tariffs by 25% across the board in July 1973.
- (iii) Accepted with minor modifications, recommendations for further substantial reductions in the levels of tariff assistance to the domestic appliance and electronic industries.
- (iv) Introduced taxation measures which appear to represent some threat over the next few years to the prosperity of the Australian wine and brandy producing industry (largely concentrated in South Australia).
- (v) Is about to receive and consider a report from the Industries Assistance Commission (formerly the Tariff Board) on the motor vehicle industry. This industry directly employs almost 20% of the State's total manufacturing workforce.

Because of the economic buoyancy in 1973 in our main trading partners, the oil crisis and its effect on available shipping space early in 1974, and the buoyant Australian demand for consumer durables over the last year, the above measures have till now had no recognisable impact on local industries' sales and employment.

The prospects for the 1974/75 financial year appear grim for some South Australian manufacturers. Import volumes are increasing sharply and when retailers realise that their sales volume increase is not matching their intake of imports and locally produced goods, order cut-backs from high-priced local producers seem certain in an attempt to reduce over-stocking.

The combined effect of tariff reductions and successive revaluations seem certain to reduce sharply the absolute levels of employment in key Adelaide manufacturers because they will be under-priced by imports.

While the South Australian Government has an appreciation of the logic behind this Federal industrial economic policy, in relation to this State's problems it considers that there has been a serious failure to integrate policy decisions in an overall framework to allow for:-

- (1) The uneven impact of generalised decisions on particular regional economies,
- (2) The utter lack of any retraining scheme for employees thrown out of work, even were alternative local industry opportunities available,
- (3) The absence of any Investment Bank of public or private projects (on the Swedish model) which could be activated in time to mitigate the severity of economic downturns in a particular region,
- (4) The naivete of the Tariff Board's approach to industry rationalisation as seen in their blithe under-estimation of the formidable barriers to product realignment on a co-operative basis between competitors. In practice only management merger by takeover, on a massive scale, would be certain of achieving their aims and anyone who has seen the setbacks mergers

have on efficiency of the component firms, for years afterwards, would hesitate to recommend this as a general method of improving Australian industrial efficiency.

- (5) The tendency for rationalisation of plants and/or products to consist of withdrawal from peripheral areas such as Adelaide back to the industrial and market concentrations of Sydney and Melbourne, and/or the sourcing overseas of products formerly made here.
- (6) The lack of adequate emphasis given to the social costs of expanding industry and population in the already swollen cities of Sydney and Melbourne. Forcing manufacturers to examine more vigorously their own least-cost solutions may, after considering Adelaide's adverse transport cost position, result in substantial relocation away from Adelaide (and from other similarly decentralised locations). Is this what the Federal Government wants to happen? It certainly appears to be the logical outcome of the single-minded cost oriented approach of the old Tariff Board (presumably to be carried on in its reincarnated form, the I.A.C.). This body has largely used a single criteria for decision-making, ignoring the social costs of its recommendations.

The South Australian Government wants the Federal Government to give more weight in its tariff and taxation policies to their effect on regional unemployment levels and on social costs, both of which may rise substantially if industrial opportunities are largely restricted to the market centres of Sydney and Melbourne. The type of costs which need to be given appropriate weight include the additional strain on the economic and environmental systems in these major centres, and the waste and social distress caused by high regional unemployment.

A continuation of the present "apparent money-costs" economic approach may cause irreparable damage to the vulnerable South Australian economy, uniquely dependent on the industries being weakened. Hard-line decisions affecting one industry

after another, domestic appliances, electronics, wine and brandy, motor vehicles, can have an adverse psychological effect on business and consumer confidence in this State which can be greater than the sum of the parts. In such a climate, attracting substantial new industry, which will nearly always face transport cost disadvantages in producing in Adelaide for a national market, may be impossible. Up till now it has merely been difficult. If this problem is not resolved South Australian unemployment will return later this year to the permanently above-average position it held in the 8 years from 1966 to 1973. This situation could be expected to provoke an extremely hostile reaction from the South Australian Government and people.

ECONOMIC INTELLIGENCE UNIT,
and
DEVELOPMENT DIVISION,
PREMIER'S DEPARTMENT.

20th June, 1974.